



August 15, 2005

Ms. Marlene H. Dortch  
Secretary  
Federal Communication Commission  
445 12<sup>th</sup> Street, SW  
Washington, DC 20554

Re: Ex Parte Contact in Federal-State Joint Board on Universal Service,  
CC Docket No. 96-45

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Dear Ms. Dortch:

This letter responds to an *ex parte* filing in the above-captioned matter made by Verizon on July 18, 2005.

Verizon asserts that, "Any numbers-based plan must ensure companies have the ability to recover their USF costs from end users." Recovery of actual contributions to the Universal Service Fund (USF) is one thing; recovery of any associated administrative costs is another thing. Simply because the Commission has allowed non-dominant carriers to recover associated administrative costs separate from the actual contribution made to the USF, does not mean that the Commission should allow local exchange carriers (LECs) who are subject to price cap regulation to insert an additional rate element. The cost of collecting and remitting USF payments is just another cost of doing business, similar to collecting and remitting taxes and complying with regulatory requirements.

Verizon contends that using only telephone numbers assigned on NRUF reports is impractical for several reasons. Ad Hoc has always maintained that the appropriate basis for USF assessments should be numbers assigned to end users. If current reports include numbers assigned to entities other than end users, alternative reports should be developed. Verizon, however, provided no data to demonstrate the size of the problem. If the Commission is persuaded that there are material deficiencies in current reports, the Commission should require that the reports be changed to reflect accurate data. If the deficiencies are not substantial, the Commission should implement a USF assessment methodology that uses existing information and that, if necessary, provides for a reconciliation when more accurate data are available.



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The next principal point in Verizon's *ex parte* is a plea for special treatment, *i.e.*, reduced or no USF assessments, for three kinds of numbers. Verizon suggests that, "Lifeline services should not be assessed [the] full unit charge." Ad Hoc has consistently maintained that Lifeline service subscribers should pay *no* USF charges for Lifeline service. Ad Hoc, however, opposes Verizon's suggestion that (1) all but the primary number on wireless family share plans should be assessed at a 50% level and (2) numbers associated with prepaid wireless cards also be assessed at a 50% level. Verizon claims that special treatment is needed to avoid "rate shock." Claimed concern about rate shock is almost laughable given the high charges that wireless customers can incur if they use more minutes than those for which they have paid as part of a pre-defined package plan. As for Verizon's concern for purchasers of prepaid wireless cards, Verizon has not established that such subscribers are in fact low income persons. Exemption from the non-discriminatory application of USF assessments should be limited to Lifeline subscribers.

Verizon's purported concern for business customers also appears motivated by its own business considerations. Verizon would exempt from assessment numbers assigned to end users, but not "in use." Verizon also wants "flexibility to recover [USF] contribution costs across different classes of customers, using some type of equivalency ratio similar to what exists under the current system." Verizon seems to be asking for the flexibility to collect a lower USF contribution from Centrex numbers than from numbers served by PBX trunks. First, Verizon is a *de-facto* monopolist in the local services market. The Commission should not give Verizon flexibility to use USF assessments in a numbers-based system to advantage Centrex service relative to PBXs. While an equivalency ratio would make sense in a connections-based system, it would be unfair to PBX users in a numbers-based USF assessment methodology. Ad Hoc believes that an overwhelming portion of PBX systems are DID enabled. In other words, there is a unique number associated each of the stations served by the PBX, just as is the case with Centrex installations. The Commission should not allow Verizon to use divergent USF contribution charges to give its Centrex service a competitive advantage relative to PBXs.

Ad Hoc's last material concern with Verizon's *ex parte* goes to Verizon's suggestion that special access services bear USF assessments based on interstate revenues in the same proportion as they are assessed today. Ad Hoc has explained and demonstrated over and over again that local exchange carriers are charging excessive special access service rates when given pricing flexibility and, of course, realizing excess revenue. Imposing a USF burden based on current USF revenues, would unreasonably burden special access subscribers (including end user purchasers of retail level services that use



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special access as an input). Moreover, Verizon's suggestion would result in numbers-based assessments being computed on a residual basis. This approach actually makes numbers-based assessments less stable than would be the case if sensible capacity ratios are used to compute for special access contributions. If the capacity ratios are set at non-distorting levels (as Ad Hoc has recommended throughout this proceeding), special access and high capacity USF assessments, contrary to Verizon's assertions, will not discourage the development of faster connections and will not repress demand for such connections.

The Commission, of course, is aware that the exceptions to application of a uniform numbers-based USF charge or to application of a charge on special access and high capacity lines based on multiplying the basic per number charge by technologically and economically rational equivalency ratios will impact the working number assessment. A properly formulated number-based USF assessment methodology would not materially repress demand for switched or special access services, would be competitively neutral and a vast improvement over the current USF assessment methodology.

Sincerely,

A handwritten signature in black ink, appearing to read 'James S. Blaszak', written over a horizontal line.

James S. Blaszak

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Counsel for  
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